DEFERRED COMPENSATION PLAN
BOARD REPORT 09-15

EMPLOYEE BENEFITS DIVISION

Date: March 9, 2009

To: Board of Deferred Compensation Administration

From: Staff

Subject: FDIC-Insured Savings Option - Request for Proposal and JPMorgan-Chase Washington Mutual

Recommendation:
That the Board of Deferred Compensation Administration:

(a) Cancel its January 9, 2009 RFP for investment management services for an FDIC-Insured savings option; and

(b) Instruct its consultant, Mercer Investment Consulting, to initiate an FDIC-savings provider search with the goal of identifying those viable and most qualified firms to meet the City's objectives for this option.

Discussion:
The City's Plan issued a Request for Proposal (RFP) for FDIC-Insured providers earlier this year. The objective for this provider search was to find three viable banking institutions as part of a newly structured multi-vendor "City of L.A. FDIC Savings Account." Responses were due March 2. Although nine vendors attended the pre-bid conference, only one vendor submitted a proposal (Bank of America). In contacting some of the firms that initially expressed interest or would have been expected to submit proposals, explanations for the non-proposal ranged from failing to attend the mandatory pre-bid conference to not seeing this product line being consistent with the firm's core business.

Also on March 2 staff received a letter from the Plan's incumbent FDIC-insured provider, JPMorgan Chase/Washington Mutual, indicating that they would not be submitting a proposal in response to the City's RFP (attached). This letter followed a telephone conversation occurring Friday, February 27th, in which the firm advised staff that the letter was coming and provided some additional verbal details. In that conversation, which included the long-standing relationship manager from Washington Mutual, Brian Dodge, as well as a regional sales manage from JPMorgan Chase, Arthur Neville, staff was informed that the firm planned to exit this particular line of business as of September 2009. This decision by the firm, therefore, affects not only the City of Los Angeles but other large clients as well (including the County of Los Angeles).

FDIC-Insured Savings Option – The City's Plan presently has approximately $280 million in the Washington Mutual Liquid Account. Given that the RFP failed to produce a response pool consistent with the Board's goal of securing three vendors, staff contacted Deputy City Attorney Steven Hong to review options for proceeding. In staff's view, there is insufficient time and too much uncertainty to allow for re-issuing the RFP and hoping for a better result. Using an approach used by the Board in other cases where an RFP has not produced a viable number of candidates, staff suggested that this RFP process be canceled and that the Board instruct its consultant to conduct a provider review and return with recommendations. Mr. Hong informed staff that the Board could do this as long as it had established that the RFP process had failed and that there was insufficient time to redo the process, both of which staff finds are true in this instance.

Staff is therefore recommending that the Board (a) cancel its January 9, 2009 RFP for investment management services for an FDIC-Insured savings option and (b) instruct its consultant, Mercer Investment Consulting, to initiate a provider search with the goal of identifying those viable and most qualified firms to meet the City's objectives for this option. Mr. Hong indicates that, assuming that a sufficient number of firms can be found to meet the Board's objectives, the Board could then proceed to directly contract with the selected vendors.

Certificates of Deposit (CDs) - The City's Plan has approximately $71 million in Washington Mutual CDs. The Board had previously approved the elimination or "freezing" of CD assets, with the approximate implementation date of this action to be July 2009, with the current holdings (which would be in certificates ranging from 1-5 years) being gradually grandfathered out of the Plan. JPMorgan Chase is, for the moment, being non-specific about what it intends to do with existing CD assets but has indicated per its correspondence that it will provide more information "in the coming weeks."

In advance of that, staff has been working closely with Mr. Hong as well as the Board's consultants at Mercer (Susan Dalton, Andrew Ness, and Beverly Orth, the latter of whom is an attorney) to determine what JPMorgan can and cannot do with respect to these assets. This research includes determining the terms that the FDIC set in overseeing the acquisition of Washington Mutual by JPMorgan Chase which, at initial reading, appear to obligate JPMorgan to maintain the CDs at the pre-existing rates. A request to the FDIC for confirmation of this will be issued shortly, and the FDIC indicates that it will respond within a matter of a few working days. A verbal update on this situation will be provided at the Boad meeting.

Submitted by: ______________________________
Steven Montagna

Approved by: ______________________________
Maryanne Keehn